

Remarks as prepared for delivery

FHWA Administrator **Mary Peters**

16th Annual ARTBA Conference on Public Private Ventures in Transportation

Thursday, December 9, 2004, Washington, D.C.

FHWA Public Affairs: 202-366-0660

BIGGER ROLE FOR THE PRIVATE SECTOR

As business leaders, you understand that investments must yield a positive rate of return. You understand opportunity cost and risk. We in the public sector are more risk-adverse. However, the public sector must create an environment that will attract, not discourage public-private partnerships.

I want to be very clear on where the Bush Administration stands on public-private partnerships (PPP). We like them, we want to encourage them, and we support them.

The President is a great believer in the power of free enterprise. Much of what the Administration is doing on a wide variety of issues is bringing market forces to bear for the benefit of all Americans. And we see that market forces work.

DOT Secretary Mineta and I are working to make PPPs and free markets a much bigger part of U.S. transportation.

As the Secretary said yesterday, we have all benefited from private sector participation in telecommunications, pipelines, railroads, maritime and aviation. Why not highways, bridges and tunnels?

1. Unleashing the power of the private sector will bring more (needed) innovation to transportation.
2. Transportation dollars will go further with P-P-P.
3. Public-private partnerships will bring transportation improvements to the public faster -- in some cases far faster -- than what we now consider a "normal" timetable. They will cause systems to be more customer-focused and help relieve the congestion and bottlenecks that are choking our economy and degrading our quality of life.

Federal Highway Administrator Mary Peters

Remarks as prepared for delivery
Partnerships in Transportation Conference Sponsored by the
National Council for Public-Private Partnerships (NCPPP)
October 6, 2004, Orlando, Florida

BIGGER ROLE FOR THE PRIVATE SECTOR

I'm glad to see so many "Partners in Transportation." I want to be very clear on where the Bush Administration stands on public-private partnerships (PPP). We are for them . . . strongly.

The President is a great believer in the power of free enterprise and DOT Secretary Mineta and I are working to make PPPs and free markets a much bigger part of U.S. transportation.

We have three key reasons:

1. Unleashing the power of the private sector will bring more innovation to transportation.
2. Transportation dollars will go further with P-P-P
3. Public-private partnerships will bring transportation improvements to the public faster -- in some cases far faster -- than what we now consider a "normal" timetable.

BEYOND HTF

Today, we find ourselves with a four million mile network of roads and highways . . . and a very large question. Do gas taxes and the Highway Trust Fund, our highway infrastructure financing tools for the past 49 years, make sense for our future?

Not alone.

Traditional means of highway finance are inadequate for two reasons - First, the public does not have enough trust in the current system to support higher gas taxes. Second, the gas tax is no longer an adequate proxy for the costs imposed by drivers on the system.

We need to think differently about how we deliver a better network to the driving public, and public-private partnerships are a natural place to start.

For decades, the Federal Highway Administration (FHWA) has encouraged private sector participation in project planning, design, construction, maintenance, and operation of highways and bridges. The private sector has expertise and the incentives -- often not available to the public sector -- that can bring innovation, flexibility, and efficiencies to certain types of projects, especially large-scale projects needed to deal with chronic congestion.

Some good examples:

Reno ReTRAC -- the Reno Transportation Rail Access Corridor, now under construction, involves separating train and vehicular traffic in downtown Reno. A new 33-foot deep trench will take train traffic below ground, eliminating car, truck, bus and pedestrian delays at 11 rail crossings along the 2.1-mile route. Part of the ReTRAC project is financed through a DOT innovative financing program that includes a blend of public and private sources for approximately \$70 million in credit assistance. King Coal Highway in southern West Virginia -- A partnership among the state DOT, private enterprise, the local redevelopment authority, and Federal Highways is allowing a mining company to place excess material generated by coal-mining activity in designated areas.

It's creating the roadbed for a future four-lane highway and, along the way, saving an estimated \$150 million off the total expected cost and allowing it to be completed much sooner.

Here in Florida, the **Lake Panasoffkee Bridge** was nominated for the National Design-Build Award. This project was developed, permitted, awarded and constructed in three years, instead of the seven it would have taken under FDOT's standard practices. And the project was completed at a cost of 42 percent less than the FDOT estimate.

I'm encouraged by the number of states that have recently enacted legislation to expand their ability to participate in public-private partnerships and I am committed to helping those states develop PPPs that meet their needs. PPPs encourage new ways of thinking about how we do business.

A few states, Florida for one, are developing public sector entities that function much more like private enterprises than traditional public sector agencies. While Florida's Turnpike Enterprise is part of FDOT, 90 percent of its employees are in the private sector. The Enterprise applies a wide variety of PPP approaches involving project development and delivery, project financing, service tracking, and asset management.

While other states have different PPP models, the Florida Turnpike Enterprise certainly has served the citizens of Florida well.

FHWA ACTIVITY

I want to touch on just a few things that the Bush Administration is doing to help encourage greater private sector participation in highway construction, maintenance and operations.

Most important, when long-term surface transportation legislation is finally signed into law -- and it looks like we are going to have to wait until next year . . . We hope it will include our proposals for environmental streamlining, private activity bonds, state infrastructure banks, a strengthened TIFIA, and more state flexibility for tolling.

The unfortunate delay in reauthorization, however, presents us with an opportunity to take a second look at the legal changes needed to encourage the formation of PPPs. U.S. DOT is preparing to transmit a report to Congress on PPPs. This report includes a summary of their importance, impediments that challenge their formation, and suggestions for removing those impediments. NCPPP was very helpful in providing information for this report, and it is our hope that this report will focus Congress and the public on the impact federal law has on PPP formation.

While we await reauthorization, several states and private ventures have asked for FHWA guidance in implementing public-private partnerships in which the private sector assumes a greater role. We want to do all we can to assist those states. Jim March, in my policy office, is pulling together material to support states interested in PPPs, including model enabling legislation and legal partnership documents. In addition, he is working on case studies highlighting what went right with these projects, and what didn't go as well, with the hope that sharing lessons learned will make it easier for others to implement successful projects.

And, of course, workshops like this one provide valuable perspective on PPP issues.

ENCOURAGING INNOVATION/SEP-15

Supporting innovation is central to FHWA's mission. And we want to partner with and encourage states interested in experimenting with better ways to provide mobility.

We have evaluated a variety of innovative contracting practices under Special Experimental Project No.14 (SEP-14), several of which have become a regular part of the highway program, including design-build and cost-plus-time bidding. FHWA has also long-encouraged innovations in the area of transportation financing, including TIFIA. It is time, however, for us to take the next step in encouraging innovation and develop a program that provides incentives for innovation in all aspects of project development.

I'm pleased to announce that this morning, the Federal Register published FHWA's most recent effort to encourage innovation -- SEP-15, a "Program to Explore Alternative and Innovative Approaches to the Overall Project Development Process."

Announcing this new program at this conference is appropriate because SEP-15 will encourage the formation of PPPs by providing additional flexibility for states interested in experimenting with better ways to develop projects. SEP-15 will lead to increased project management flexibility, more innovation, improved efficiency, timely project implementation, and new revenue streams.

SEP-15 arose out of some of the questions we received from states interested in pursuing large, corridor projects -- in particular I-81 in VA and I-35 in TX. These projects did not fit well under SEP-14. SEP-14 allows for innovations in contracting, but is not designed to provide flexibility in the environmental review process, project finance, or in areas such as right-of-way acquisition. As the projects in VA and TX underscored, we needed a special experimental project that would allow innovative project proponents to ask for flexibility on a project-wide basis.

SEP-15 provides that project-wide flexibility. States interested in pursuing a SEP-15 project can apply to their Division Office, and a copy of the application will be forwarded to FHWA's Deputy Administrator. A team of Division and Headquarters staff will consider the application.

If the application is approved, FHWA will work with the state and the private sector project proponent to develop a partnership agreement. The agreement will clearly indicate project milestones and decisions that will need to be made at the state and federal levels.

Of course, SEP-15 is not a magic wand to make federal requirements disappear. FHWA will still be responsible for safeguarding our key stewardship responsibilities -- protecting the environment and preventing the misuse of taxpayer dollars. But SEP-15 does allow us, on a case-by-case basis, to carry out those stewardship responsibilities in a more flexible manner.

FHWA recognizes that SEP-15 proposals may include multi-modal components. Federal Highways will coordinate review of multi-modal SEP-15 proposals with appropriate modal administrations.

CLOSE

Highways are traditionally government planned, government funded, and government maintained. Not the typical American approach to industry. In a time of funding shortages at all levels of government, it is particularly important that we allow -- unleash -- the private sector to participate in all elements of infrastructure improvements.

We know PPPs work. We can lower costs and speed project completion.

The time has come to let the free market and public-private partnerships deliver the innovation, cost savings, and quality they have brought to every other industry.

-end-

HTF FALLING SHORT

For the next few minutes, I'd like to outline our vision of why the private sector and the free enterprise system should play a bigger role in the future. And to do that, I want to start with a look back, because it can guide us about how to go forward.

In September 1954, President Eisenhower established the President's Advisory Committee that was directed to develop a plan for an Interstate Highway System. It came to be known as the Clay Commission. This Committee ultimately recommended -- and President Eisenhower agreed -- that the Interstate System should be funded primarily by gas and diesel oil taxes and augmented by tolls only in limited instances . . . although the President originally recommended tolls!

Fast-forward to the early 1980s and the administration of President Reagan. The President made several attempts to redefine the federal and state roles in transportation, including proposing a Federalism Block Grant Highway Act. President Reagan recognized that with completion of the Interstate System, we needed to redefine the future of transportation. However, Congress rejected his proposals.

Now, fifty years after President Eisenhower first proposed a review of the federal role in highways, we have a serious mismatch between supply and demand. The user-fee system set up to finance the Interstate Highway system -- the Highway Trust Fund (HTF) -- has served us well. But, traditional funding is simply not keeping up with the growth of business and personal travel.

The challenges we face today are very different than those that existed a half-century ago. The challenge then was national connectivity. Today, it is congestion and capacity -- largely local and regional issues.

One business at a time and one commuter at a time, congestion robs our nation of productivity and quality of life. It's clear that Highway Trust Fund receipts are not growing fast enough to meet the nation's transportation needs. Among the reasons:

- The public doesn't have enough trust in the current system to support higher gas taxes.
- The gas tax is no longer an adequate proxy for costs imposed by drivers on the system.

UNLEASH THE FREE MARKET

So what do we do?

We need to determine what is truly in the national interest for surface transportation and then structure a funding mechanism to support those priorities. Doing so is currently overshadowed by the urgent need to reauthorize the surface transportation program.

When it is finally passed, we hope it will include President Bush's proposals that lead to more private sector involvement, including private activity bonds, state infrastructure banks, a strengthened TIFIA, and more state flexibility for tolling.

Having been taught by my father to present solutions, not just problems . . . Let me suggest that our vision for meeting future transportation needs and reducing congestion is the same answer we have for nearly every other product and service in America -- unleashing the power and opportunity of our free market system.

The same market forces that took us from Ma Bell's standard issue, black rotary phone to cell phones and Blackberrys can relieve congestion, reduce the need for road repairs, and improve the safety of our highways.

That's why this administration is promoting PPPs. And already, we are seeing some notable success, which you no doubt know very well. They include Reno's ReTRAC project which is financed in part through a TIFIA loan that includes a blend of public and private sources. And Florida's Turnpike Enterprise, a part of FDOT, but 90 percent of its employees are in the private sector.

I'm encouraged by the number of states, including Virginia, that have recently enacted legislation to expand their ability to participate in public-private partnerships. These are the types projects we are encouraging around the country.

TOLLING

As we all know, market forces do not work without some form of pricing. In the road business, this often takes the form of tolling. Recent research shows that tolling is not only a proven congestion buster, but also viewed by Americans as a viable option for funding infrastructure needs.

Americans have demonstrated that they are willing to pay for quality and convenience. Many workplaces offer free coffee, but employees, including me, still drop by Starbucks because Americans value quality. The United States Postal Service will deliver a First-Class letter for 37 cents, but businesses are willing to pay \$15 for overnight service because they value the convenience and reliability that comes with an on-time delivery guarantee.

And we are seeing around the country that pricing on highways is no different. When given the option for a quicker, less congested route, drivers are eager to have a choice . . .

If they need to get to their child's ballgame or piano recital --

If they need to run important errands --

Or if they need to fulfill important business commitments.

That's why President Bush, Secretary Mineta and I want give states the option of pricing, if they determine it's the best way to manage their transportation needs. Not only will it raise additional revenue, but pricing is also more equitable. It encourages innovation and economic thinking. And it keeps the transportation dollar local, where it belongs.

The time has come to seriously rethink whether the models we have used to deliver highway services since the 1950s work today.

At FHWA, we hope to work with states and the private sector to develop a broader vision of highway transportation financing that will prevent our children and grandchildren from being stuck in the same congestion we have today.

SEP-15

As we are working to realize that goal, we do have SEP-15 available now.

FHWA's most recent effort to encourage innovation -- SEP-15 is a "Program to Explore Alternative and Innovative Approaches to the Overall Project Development Process." SEP-15 will encourage the formation of PPPs by providing additional flexibility for states interested in experimenting with better ways to develop projects.

SEP-15 will lead to increased project management flexibility, more innovation, improved efficiency, timely project implementation, and new revenue streams. It arose out of some of the questions we received from states interested in pursuing large corridor projects -- in particular I-81 in Virginia and I-35 in Texas. These projects did not fit well under SEP-14.

SEP-14 allows for innovations in contracting such as design-build. SEP-15 expands upon SEP-14 and allows states to experiment with all phases of project delivery.

As the projects in Virginia and Texas underscore, we need a special experimental project that allows flexibility on a project-wide basis. States interested in pursuing a SEP-15 project can apply to their Division Office. We are excited by the initial response to SEP-15. Thus far, eight states have expressed an interest in pursuing projects under the program.

Of course, SEP-15 is not a magic wand to make federal requirements disappear.

FHWA is still responsible for our key stewardship responsibilities -- protecting the environment and preventing the misuse of taxpayer dollars. But SEP-15 does allow us, on a case-by-case basis, to carry out those stewardship responsibilities in a more flexible manner.

FREE MARKETS DELIVER INNOVATION

Let me close by noting that highways in the U.S. are traditionally government planned, government funded, and government maintained. Not the typical American approach to industry.

But that is changing.

The time has come for us to acknowledge that building a highway network is not substantially different than building a telecommunications network or a network for the delivery of electricity.

I, for one, am quite happy to have options beyond a heavy rotary-dial desk telephone.

The time has come for us to allow -- unleash -- the private sector to participate in all elements of infrastructure improvements. It is time to let the free market deliver the innovation, cost savings, and quality it has delivered in other industries. And, it is time to allow states to expand the pricing of their highway networks.

We know PPPs work.

The time is right to move them into the mainstream of transportation finance.

-end-